

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>CALHOUN COUNTY 100% DTR FUND</b>	County <b>CALHOUN</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>02/23/06</b>	Date Accountant Report Submitted to State: <b>05/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>STEWART, BEAUVAIS &amp; WHIPPLE PC</b>			
Street Address <b>1979 HOLLAND AVENUE</b>	City <b>PORT HURON</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart, Beauvais &amp; Whipple</i>			Date <b>05/24/06</b>

**COUNTY OF CALHOUN, MICHIGAN**

**100% DELINQUENT TAX REVOLVING FUND**

**ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
DECEMBER 31, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**

**TABLE OF CONTENTS**  
**DECEMBER 31, 2005**

	<u>Page Number</u>
Independent Auditor's Report	1
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
<b>Supplementary Financial Information</b>	
Detailed Balance Sheet	15
Detailed Statement of Revenues, Expenses and Changes in Net Assets	16
Detailed Statement of Cash Flows	17
<b>Supplementary Compliance Information</b>	
Independent Auditor's Report on -  Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18

## INDEPENDENT AUDITOR'S REPORT

County Treasurer  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the accompanying financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of December 31, 2005, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the County Treasurer. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the 100% Delinquent Tax Revolving Fund and are not intended to present fairly the financial position of the County of Calhoun, Michigan, and the results of its operations and cash flows of its proprietary and similar trust fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 23, 2006, on our consideration of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit of the financial statements was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed financial statements listed as supplementary financial information in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

February 23, 2006

**COUNTY OF CALHOUN, MICHIGAN**

**100% DELINQUENT TAX REVOLVING FUND  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

**Current Assets:**

Cash and cash equivalents	\$ 3,815,323
Investments	7,505,897
Receivables -	
Accrued interest and fees	1,122,652
Delinquent taxes	<u>5,041,805</u>
Total Current Assets	17,485,677

**Capital Assets:**

Furniture and equipment (net of accumulated depreciation)	31,685
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**Other Assets:**

Advance to other funds	<u>61,669</u>
Total Assets	<u><u>\$ 17,579,031</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accrued liabilities	\$ 36,862
Due to other governmental units	119,617
Tax note payable	<u>500,000</u>
Total Liabilities	<u>656,479</u>

**Net Assets:**

Restricted	6,452,918
Unrestricted	<u>10,469,634</u>
Total Net Assets	<u>16,922,552</u>
Total Liabilities and Net Assets	<u><u>\$ 17,579,031</u></u>

See Notes to  
Financial Statements

**COUNTY OF CALHOUN, MICHIGAN**

**100% DELINQUENT TAX REVOLVING FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Operating Revenues:**

Interest on taxes	\$ 998,129
Administrative fees and penalties	<u>598,615</u>
Total Operating Revenues	<u>1,596,744</u>

**Operating Expenses:**

Administrative Expenses	<u>221,839</u>
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Operating Income	<u>1,374,905</u>
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**Non-Operating Revenues (Expenses):**

Interest earned on investments	384,223
Interest expense	<u>( 78,010)</u>
	<u>306,213</u>

Income before transfers	1,681,118
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**Transfers:**

Transfer to County General Fund	<u>( 1,600,000)</u>
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Change in Net Assets	81,118
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Net Assets at beginning of year	<u>16,841,434</u>
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Net Assets at end of year	<u><u>\$ 16,922,552</u></u>
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See Notes to  
Financial Statements

**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>Cash Flows From Operating Activities:</b>	
Cash received from customers and governmental units	\$ 1,042,740
Cash payments to suppliers and governmental units	( 252,186)
Net cash provided by operating activities	<u>790,554</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>	
Payment received on advance to other funds	58,732
Transfers in (out) -	
General Fund	( 1,600,000)
Tax note proceeds	5,400,000
Redemption of tax notes	( 5,350,000)
Net Cash Used by Non-Capital Financing Activities	<u>( 1,491,268)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Acquisition of furniture and equipment	( 6,183)
<b>Cash Flows From Investing Activities:</b>	
Redemptions (purchases) of investments	331,535
Interest earned on investments	306,213
Net Cash Provided by Investing Activities	<u>637,748</u>
Net Increase in Cash and Cash Equivalents for the year	( 69,149)
Cash and Cash Equivalents at beginning of year	<u>3,884,472</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 3,815,323</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income for the year	\$ 1,374,905
Adjustments to reconcile operating income to net cash provided by operating activities -	
Depreciation	12,930
Changes in assets and liabilities -	
(Increase) Decrease in -	
Delinquent taxes receivable	( 474,152)
Accrued interest receivable	( 79,852)
Increase (Decrease) in -	
Accrued liabilities	2,714
Due to other governmental units	( 25,188)
May tax sale	( 20,803)
Net Cash Provided by Operating Activities	<u><u>\$ 790,554</u></u>
<b>Supplemental Information:</b>	
Cash paid during the year for interest	<u><u>\$ (78,010)</u></u>

See Notes to  
Financial Statements



**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - DESCRIPTION OF THE 100% DELINQUENT TAX REVOLVING FUND OPERATIONS:**

The 100% Delinquent Tax Revolving Fund is an Enterprise Fund of the County of Calhoun, Michigan, and is used to account for the operations related to the borrowing of money to pay other local units of government (taxing units) and various County funds for their delinquent real property taxes.

The accompanying financial statements are the exclusive presentation of the financial position and results of operations and cash flows of the 100% Delinquent Tax Revolving Fund and do not include or reflect the financial position or results of operations and changes in cash flows of the other funds of the County of Calhoun. Therefore, the 100% Delinquent Tax Revolving Fund is not intended to present fairly the financial position and results of operations of the County of Calhoun, in conformity with accounting principles generally accepted in the United States of America. The 100% Delinquent Tax Revolving Fund, although legally reported as one fund, is the combined total of three specific operational segments described as follows:

**Delinquent Tax Series -**

By agreement with the various local units of government (taxing authorities) in the County of Calhoun, Michigan, the County purchases at face value the real property taxes returned delinquent each March 1. The County issues general obligation limited tax notes to partially finance the purchase of the delinquent taxes and pays the notes through subsequent collection on delinquent taxes receivable, plus interest and administrative fees thereon, and investment earnings.

The activity for each tax levy year is accounted for separately in the tax series year in which the property taxes become delinquent and the general obligation limited tax notes are issued.

**Limited Tax Note Reserve -**

A separate account has been established pursuant to resolution by the Board of Commissioners of Calhoun County, which states in part that the County Treasurer may set aside an amount not to exceed \$1,000,000 as a debt service reserve to be available for the payment of current debt service requirements on an outstanding note, for which collection of money primarily pledged is insufficient. At December 31, 2005, there is a \$1,000,000 debt service reserve in a separate account.

**Bond Administration -**

The Bond Administration of the various Delinquent Tax Series represents the administrative expenses of the operations of the 100% Delinquent Tax Revolving Fund as regulated by Michigan Compiled Laws. The administrative expenses are accrued annually for each tax series, based on a legal formula, however, the amount is not actually transferred to the administration account until the appropriate tax series general obligation limited tax note issue is paid in full.

**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - DESCRIPTION OF THE 100% DELINQUENT TAX FUND OPERATIONS - (cont'd):**

The amount accrued for administrative expenses is then transferred to and maintained in a separate cash account from the various Delinquent Tax Series bank accounts. From this cash account, administrative expenses are made and thus recorded in the bond administration account. The administrative account also maintains the dollars derived from foreclosure sales.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The significant accounting policies of the County of Calhoun pertaining to the 100% Delinquent Tax Revolving Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of the more significant accounting policies:

**BASIS OF ACCOUNTING** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The 100% Delinquent Tax Revolving Fund, operated as an Enterprise Fund, uses the accrual method of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**MEASUREMENT FOCUS** - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Calhoun County 100% Delinquent Tax Revolving Fund is accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Balance Sheet. The operating statement presents increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

**CASH EQUIVALENTS** - Cash equivalents are temporary investments which consist of government investment trust funds and certificates of deposit with maturity dates less than 90 days and are recorded at cost which approximates fair value. The government investment trust funds have the general characteristics of demand deposit accounts in that the County Treasurer may deposit and withdraw additional cash at any time without prior notice or penalty. Cash equivalents are recorded at cost which approximates fair value.

**INVESTMENTS** - Investments consist of certificates of deposit and commercial paper with maturities in excess of ninety days from the date of purchase. The investments are recorded at cost which approximates fair value.

**DUE FROM OTHER GOVERNMENTAL UNITS** - Due from other governmental units is an asset account reflecting amounts due to the 100% Delinquent Tax Revolving Fund from another governmental unit. The amounts represent receivables from local governmental units for chargebacks resulting from delinquent taxes that were unable to be collected.

**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**DUE TO OTHER GOVERNMENTAL UNITS** - Due To Other Governmental Units is a liability account reflecting amounts due from the 100% Delinquent Tax Revolving Fund to another governmental unit. The amounts represent payables to the State of Michigan for State tax sale redemptions and delinquent property taxes turned over to the 100% Delinquent Tax Revolving Fund (Series 2006) by the Villages in the County prior to December 31, 2005, but will not be paid until the Series 2006 G.O. Limited Tax Note sale.

**CAPITAL ASSETS** - Capital assets are recorded at cost. Expenses that materially extend the life of existing assets are capitalized.

Depreciation of all capital assets is charged as an expense against operations. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are:

Equipment	5 to 7 years
Office furniture	10 years

**ESTIMATES** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**COMPARATIVE AMOUNTS** - Comparative amounts have not been presented on the financial statements for 2005. The financial statements of the 100% Delinquent Tax Revolving Fund as of December 31, 2004, were audited, and the Independent Auditor's Report, dated February 24, 2004, expressed an unqualified opinion on those statements.

**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2005, the carrying amount of the deposits and investments is as follows:

Deposits	
Cash on Hand – Imprest	\$ 100
Deposits with Financial Institutions –	
Certificates of Deposit	<u>8,652,791</u>
Total Deposits	<u>8,652,891</u>
Investments	
Investment Trust Funds	633,506
Commercial Paper	<u>2,034,823</u>
Total Investments	<u>2,668,329</u>
	<u><u>\$ 11,321,220</u></u>
Reconciliation to Balance Sheet	
Reported as Cash and Cash Equivalents	
Imprest	\$ 100
Certificates of Deposit	3,181,717
Investment Trust Funds	<u>633,506</u>
Total Cash and Cash Equivalents	<u>3,815,323</u>
Reported as Investments	
Certificates of Deposit	5,471,074
Commercial Paper	<u>2,034,823</u>
Total Investments	<u>7,505,897</u>
	<u><u>\$ 11,321,220</u></u>

**Deposits and Investments**

The County's investment policy and Act 20 PA 1943, as amended, authorizes the County to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

Act 20 PA 1943 as amended authorizes the County to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

The County's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The County Treasurer is responsible for the investment program.

*Custodial Credit Risk* – is the risk that in the event of a bank failure, the County's deposit or investments may not be returned.

As of December 31, 2005, the bank balance of the County's DTR Fund's deposits was \$8,652,791, of which \$600,000 was FDIC insured with the balance of \$8,052,791 was exposed to credit risk as it was uninsured and uncollateralized.

*Interest Rate Risk* – is the risk that in the event that the market value of securities in the County portfolio will fail due to changes in the market interest increases. The County attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities and money markets funds.

All commercial paper currently held by the County in the amount of \$2,034,823, adheres to the 270-day maturity requirement in the investment policy.

*Credit Risk* – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws and County policy limit the types of investments the County can purchase.

As of December 31, 2005, all of the County's holdings in commercial paper of \$2,034,823 were rated A1+ by Standard and Poor's and P1 by Moody's.

As of December 31, 2005, all of the County's holdings in investment trust funds of \$633,506 were rated AAAm by Standard and Poor's and Aaa by Moody's.

**COUNTY OF CALHOUN, MICHIGAN**

**100% DELINQUENT TAX REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

*Concentration of Credit Risk* – is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The County's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As at December 31, 2005, the County had greater than 5% of its total investment portfolio concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
Commercial Paper	Citigroup Funding Inc.	76.3%
Investment Trust Funds	LaSalle Bank	23.7%

The investment trust funds have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**NOTE 4 - DELINQUENT TAXES RECEIVABLE:**

The Delinquent Taxes Receivable at December 31, 2005, represents the balance owed by individual taxpayers for delinquent real property taxes. These delinquent taxes receivable for Series 2005 are pledged to a bank for the payment of the notes payable described in Note 6 of Notes to Financial Statements. Subsequent collections on the delinquent taxes receivable, plus interest and administrative fees thereon, and investment earnings are used to service the notes payable. At the end of three years, any real property taxes not collected may be charged back to the County and all other taxing authorities affected. The following are the balances of the Delinquent Taxes Receivable per Delinquent Tax Series and year of tax levy:

Series 1998 (Levy 1997)	\$ 849
Series 1999 (Levy 1998)	17,553
Series 2000 (Levy 1999)	12,726
Series 2001 (Levy 2000)	54,219
Series 2002 (Levy 2001)	196,292
Series 2003 (Levy 2002)	293,074
Series 2004 (Levy 2003)	802,420
Series 2005 (Levy 2004)	3,563,115
Series 2006 (Levy 2005)	<u>101,557</u>
	<u>\$ 5,041,805</u>

# COUNTY OF CALHOUN, MICHIGAN

## 100% DELINQUENT TAX REVOLVING FUND NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

### NOTE 5 - CAPITAL ASSETS:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Furniture	\$ 33,104	\$ -	\$ -	\$ 33,104
Equipment	<u>69,104</u>	<u>6,183</u>	<u>-</u>	<u>75,287</u>
	102,208	6,183	-	108,391
Less – accumulated depreciation	<u>63,776</u>	<u>12,930</u>	<u>-</u>	<u>76,706</u>
Net Book Value	<u>\$ 38,432</u>	<u>\$ ( 6,747)</u>	<u>\$ -</u>	<u>\$ 31,685</u>

The depreciation expense for 2005 is \$12,930.

### NOTE 6 - ADMINISTRATIVE AND AGENT FEES:

Pursuant to a County Board Resolution, each delinquent tax series may be charged an administrative and agent fee. The amount is specified in Michigan Public Act 211.87c and is currently 3/64 of the interest collected each month payable as follows: 20% to the County Treasurer as Agent for the County, and 80% to the County Treasurer's office to cover administrative expenses. However, the Treasurer's agent fees shall not exceed 20% of the County Treasurer's annual salary, and any excess over this limitation shall be included as part of the Treasurer's Office Administration fee determination. The sum of the amount in excess of the limitation referred to above and the 80% allocated to the County Treasurer's for administrative expenses shall not exceed 5% of the total budget of the Treasurer's office for any given year. The administrative and agent fee amounts are recorded as transfers between the various tax note series accounts and the administration account. The resulting due to, due from, transfer to and from amounts are eliminated for reporting purposes so that assets, liabilities, and transfers are not inflated. The agent fee expense is recognized in each year of the calculation while the administrative fee is recognized when an expense is incurred.

### NOTE 7 - LONG-TERM DEBT:

The following is a summary of the changes in long-term debt of the 100% Delinquent Tax Revolving Fund of the County of Calhoun for the year ended December 31, 2005:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
General Obligation Limited Tax Notes -				
Series 2004	\$ 450,000	\$ -	\$ 450,000	\$ -
Series 2005	<u>-</u>	<u>5,400,000</u>	<u>4,900,000</u>	<u>500,000</u>
	<u>\$ 450,000</u>	<u>\$5,400,000</u>	<u>\$ 5,350,000</u>	<u>\$ 500,000</u>

**COUNTY OF CALHOUN, MICHIGAN**

**100% DELINQUENT TAX REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 7 - LONG-TERM DEBT - (cont'd):**

Significant details regarding outstanding General Obligation Limited Tax Notes are presented as follows:

The County issues General Obligation Limited Tax Notes in order to finance the purchase of delinquent real property taxes from the cities, villages and townships in the County and from various County funds. The Series 2005 General Obligation Limited Tax Notes dated May 18, 2005 were issued for \$5,400,000. The balance on the notes of \$500,000 is made up as follows:

<u>Principle</u>	<u>Interest</u>
\$ 500,000	\$ 2,028

**NOTE 8 – RESTRICTED NET ASSETS:**

All Delinquent Tax Series that have tax notes with outstanding balances by Bond Resolution must reserve all the Net Asset Balance until such tax notes are paid in full. Also, by Bond Resolution a Bond Administration Fund has been established to restrict funds for Treasurer's Office Bond Administration and for funds restricted as a result of foreclosure sales.

In addition, the County has elected to restrict \$1,000,000 as described in Note 1 to the Notes to Financial Statements and to transfer excess funds during 2005 in the amount of \$4,027,759 from various Series which no longer have tax notes payable and the Limited Tax note reserve to the 2005 series, thus requiring these amounts to be reserved. The following is a summary of the Restricted Net Asset amounts at December 31, 2005:

Restricted for Debt Service -	
Delinquent Tax Series 2005	\$ 4,998,596
Limited Tax Note Reserve	<u>1,000,000</u>
	5,998,596
Restricted For Treasurer's Office Bond Administration	300,494
Restricted from foreclosure sales	<u>153,828</u>
	<u>\$ 6,452,918</u>

**NOTE 9 - ADVANCE TO OTHER FUNDS:**

The County Treasurer entered into a loan agreement with the County on June 17, 1996. The agreement provides the County Treasurer to loan \$500,000 in surplus 100% Delinquent Tax Revolving Fund money to the County General Fund. An advance to other funds is reported on the Balance Sheet of the 100% Delinquent Tax Revolving Fund to reflect the loan transaction. The agreement calls for the loan to be repaid from the General Fund in equal annual installments of \$64,752, commencing on June 1, 1997, through June 1, 2006, including interest at five percent of the outstanding principal balance per annum. The loan may be repaid prior to June 1, 2006, without penalty. The balance of the advance to other funds at December 31, 2005 is \$61,669.



**COUNTY OF CALHOUN, MICHIGAN**  
**100% DELINQUENT TAX REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 10 – MICHIGAN PUBLIC ACT 123 OF 1999:**

Under Public Act 123, property owners that let there property taxes go three years delinquent have their property foreclosed upon and sold at public auction. This was effective with the 1999 delinquent taxes.

Counties under the new law had the option of obtaining ownership of the properties or having the State of Michigan obtain ownership. Calhoun County originally elected to have the State obtain ownership of the foreclosed property. Therefore the State has had the responsibility for obtaining, maintaining and selling the property. Calhoun County has now elected to take ownership of the foreclosed properties. As a result, the County will have the responsibility for obtaining, maintaining and selling the property. This is effective with the 2002 delinquent taxes.

## **SUPPLEMENTARY FINANCIAL INFORMATION**

# COUNTY OF CALHOUN, MICHIGAN

## 100% DELINQUENT TAX REVOLVING FUND DETAILED NET ASSETS DECEMBER 31, 2005

	Delinquent Tax Series 1993-2004	Delinquent Tax Series 2005	Delinquent Tax Series 2006	Limited Tax Note Reserve	Bond Administration	Total
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 3,175,461	\$ 217,683	\$ 13,880	\$ -	\$ 408,299	\$ 3,815,323
Investments	5,285,913	1,192,152	-	1,027,832	-	7,505,897
Receivables -						
Accrued interest and fees	577,128	537,377	-	1,572	6,575	1,122,652
Delinquent taxes	1,377,133	3,563,115	101,557	-	-	5,041,805
Total Current Assets	10,415,635	5,510,327	115,437	1,029,404	414,874	17,485,677
<b>Capital Assets:</b>						
Furniture and equipment (net of accumulated depreciation)	-	-	-	-	31,685	31,685
<b>Other Assets:</b>						
Advance to other funds	61,669	-	-	-	-	61,669
Total Assets	<u>\$ 10,477,304</u>	<u>\$ 5,510,327</u>	<u>\$ 115,437</u>	<u>\$ 1,029,404</u>	<u>\$ 446,559</u>	<u>\$ 17,579,031</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current Liabilities:</b>						
Accrued liabilities	\$ 52	\$ 46	\$ -	\$ -	\$ 35,076	\$ 35,174
Due to bond administration	31,136	11,685	18	-	( 42,839)	-
Due to other governmental units	4,666	-	114,951	-	-	119,617
May tax sale and state sold bids	1,688	-	-	-	-	1,688
Tax notes payable	-	500,000	-	-	-	500,000
Total Liabilities	37,542	511,731	114,969	-	( 7,763)	656,479
<b>Net Assets:</b>						
Restricted						
Debt service	-	4,998,596	-	1,000,000	-	5,998,596
Bond administration	-	-	-	-	300,494	300,494
Foreclosure sales	-	-	-	-	153,828	153,828
Unrestricted	10,439,762	-	468	29,404	-	10,469,634
Total Net Assets	10,439,762	4,998,596	468	1,029,404	454,322	16,922,552
Total Liabilities and Net Assets	<u>\$ 10,477,304</u>	<u>\$ 5,510,327</u>	<u>\$ 115,437</u>	<u>\$ 1,029,404</u>	<u>\$ 446,559</u>	<u>\$ 17,579,031</u>

# COUNTY OF CALHOUN, MICHIGAN

## 100% DELINQUENT TAX REVOLVING FUND DETAILED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005

	Delinquent Tax Series 1993-2004	Delinquent Tax Series 2005	Delinquent Tax Series 2006	Limited Tax Note Reserve	Bond Administration	Total
<b>Operating Revenues:</b>						
Interest on delinquent taxes	\$ 406,265	\$ 591,529	\$ 335	\$ -	\$ -	\$ 998,129
Fees on delinquent taxes	( 54,839)	418,832	-	-	234,622	598,615
Total Operating Revenues	351,426	1,010,361	335	-	234,622	1,596,744
<b>Operating Expenses:</b>						
Administrative Expenses	6,480	22,883	-	-	192,476	221,839
Operating Income	344,946	987,478	335	-	42,146	1,374,905
<b>Non-Operating Revenues (Expenses):</b>						
Interest earned on investments	274,235	67,177	151	33,347	9,313	384,223
Interest paid on long-term debt	( 1,436)	( 76,574)	-	-	-	( 78,010)
	272,799	( 9,397)	151	33,347	9,313	306,213
Income before transfers	617,745	978,081	486	33,347	51,459	1,681,118
<b>Transfers In (Out):</b>						
General Fund	( 1,600,000)	-	-	-	-	( 1,600,000)
Delinquent Tax Series	( 4,009,927)	4,027,821	-	( 17,894)	-	-
Bond Administration	( 30,628)	( 11,686)	( 18)	-	42,332	-
Total Transfers	( 5,640,555)	4,016,135	( 18)	( 17,894)	42,332	( 1,600,000)
Net Change in Net Assets	( 5,022,810)	4,994,216	468	15,453	93,791	81,118
Net Assets at beginning of year	15,462,572	4,380	-	1,013,951	360,531	16,841,434
Net Assets at end of year	\$ 10,439,762	\$ 4,998,596	\$ 468	\$ 1,029,404	\$ 454,322	\$ 16,922,552

# COUNTY OF CALHOUN, MICHIGAN

## 100% DELINQUENT TAX REVOLVING FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005

	Delinquent Tax Series 1993-2004	Delinquent Tax Series 2005	Delinquent Tax Series 2006	Limited Tax Note Reserve	Bond Administration	Total
<b>Cash Flows from Operating Activities:</b>						
Cash received from customers and governmental units	\$ 3,929,393	\$( 3,025,885)	\$( 101,222)	\$ 12,379	\$ 228,075	\$ 1,042,740
Cash payments to suppliers and governmental units	( 55,693)	( 134,514)	114,951	-	( 176,930)	( 252,186)
Net cash provided (used) by operating activities	<u>3,873,700</u>	<u>( 3,160,399)</u>	<u>13,729</u>	<u>12,379</u>	<u>51,145</u>	<u>790,554</u>
<b>Cash Flows from Noncapital Financing Activities:</b>						
Payment received on advance to other funds	58,732	-	-	-	-	58,732
Transfers in (out) -						
General Fund	( 1,600,000)	-	-	-	-	( 1,600,000)
Other DTR funds	( 4,133,232)	4,027,759	-	( 17,894)	123,367	-
Tax note proceeds	-	5,400,000	-	-	-	5,400,000
Redemption of tax notes	( 450,000)	( 4,900,000)	-	-	-	( 5,350,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>( 6,124,500)</u>	<u>4,527,759</u>	<u>-</u>	<u>( 17,894)</u>	<u>123,367</u>	<u>( 1,491,268)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition of furniture and equipment	-	-	-	-	( 6,183)	( 6,183)
<b>Cash Flows from Investing Activities:</b>						
Redemption (purchase) of investments	1,551,519	( 1,192,152)	-	( 27,832)	-	331,535
Interest earned on investments	272,799	( 9,397)	151	33,347	9,313	306,213
Net Cash Provided (Used) by Investing Activities	<u>1,824,318</u>	<u>( 1,201,549)</u>	<u>151</u>	<u>5,515</u>	<u>9,313</u>	<u>637,748</u>
Net increase (decrease) in cash and cash equivalents	( 426,482)	165,811	13,880	-	177,642	(69,149)
Cash and cash equivalents, beginning of year	<u>3,601,943</u>	<u>51,872</u>	<u>-</u>	<u>-</u>	<u>230,657</u>	<u>3,884,472</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 3,175,461</u></u>	<u><u>\$ 217,683</u></u>	<u><u>\$ 13,880</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 408,299</u></u>	<u><u>\$ 3,815,323</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>						
Operating income for the year	344,946	987,478	335	-	42,146	1,374,905
Adjustments to reconcile operating income to net cash provided (used) by operating activities -						
Depreciation	-	-	-	-	12,930	12,930
Changes in assets and liabilities -						
(Increase) Decrease in -						
Delinquent taxes receivable	3,128,745	( 3,501,340)	( 101,557)	-	-	( 474,152)
Accrued interest receivable	449,222	( 534,906)	-	12,379	( 6,547)	( 79,852)
Due from other governmental units	-	-	-	-	-	-
Increase (Decrease) in -						
Accrued liabilities	52	46	-	-	2,616	2,714
Due to other governmental units	( 28,462)	( 111,677)	114,951	-	-	( 25,188)
May tax sale	( 20,803)	-	-	-	-	( 20,803)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 3,873,700</u></u>	<u><u>\$( 3,160,399)</u></u>	<u><u>\$ 13,729</u></u>	<u><u>\$ 12,379</u></u>	<u><u>\$ 51,145</u></u>	<u><u>\$ 790,554</u></u>
<b>Supplemental Information:</b>						
Cash paid during the year for interest	<u><u>\$( 1,436)</u></u>	<u><u>\$( 76,574)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$( 78,010)</u></u>

## **SUPPLEMENTARY COMPLIANCE INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

County Treasurer  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the basic financial statements of the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan, as of and for the year ended December 31, 2005, and have issued our report thereon, dated February 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 100% Delinquent Tax Revolving Fund of the County of Calhoun, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the County Treasurer and the Board of Commissioners of the County of Calhoun, Michigan and is not intended to be and should not be used by anyone other those specified parties.

  
Certified Public Accountants

February 23, 2006